

REPORT OF EXAMINATION  
OF  
WESTCOR LAND TITLE INSURANCE COMPANY  
  
AS OF  
DECEMBER 31, 2003

Participating State  
and Zone:

California

Filed June 22, 2005

## TABLE OF CONTENTS

	<u>Page</u>
SCOPE OF EXAMINATION.....	1
COMPANY HISTORY .....	2
MANAGEMENT AND CONTROL: .....	2
Conflict of Interest .....	4
Intercompany Services Arrangements .....	4
Affiliated Investments.....	5
CORPORATE RECORDS .....	5
TERRITORY AND PLAN OF OPERATION .....	6
REINSURANCE: .....	7
Assumed.....	7
Ceded .....	7
ACCOUNTS AND RECORDS:.....	8
Information System Controls:.....	9
FINANCIAL STATEMENTS:.....	10
Statement of Financial Condition as of December 31, 2003 .....	11
Operations and Investment Exhibit for the Year Ended December 31, 2003.....	12
Reconciliation of Surplus as Regards Policyholders from December 31, 2000 through December 31, 2003 .....	13
Reconciliation of Examination Changes as of December 31, 2003.....	14
COMMENTS ON FINANCIAL STATEMENT ITEMS:.....	15
Bonds, Stocks and Cash on Deposit .....	15
Known Claim Reserves.....	15
Statutory Premium Reserve .....	16
Aggregate Write-in for Other Liabilities .....	16
SUMMARY OF COMMENTS AND RECOMMENDATIONS:.....	17
Current Report of Examination.....	17
Previous Report of Examination .....	18
ACKNOWLEDGEMENT .....	19

San Francisco, California  
March 17, 2005

Honorable John Garamendi  
Insurance Commissioner  
California Department of Insurance  
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of

WESTCOR LAND TITLE INSURANCE COMPANY

(also referred to as the Company) at its home office located at 2500 North Buffalo Drive, Suite 245, Las Vegas, Nevada 89128. The statutory home office is located at 189 Fulweiler Avenue, Auburn, California 95603.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2000. This examination covers the period from January 1, 2001 through December 31, 2003. The examination was made pursuant to the National Association of Insurance Commissioners plan of examination.

The present examination of the Company included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2003, as deemed necessary under the circumstances. In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; loss experience; and sales and advertising.

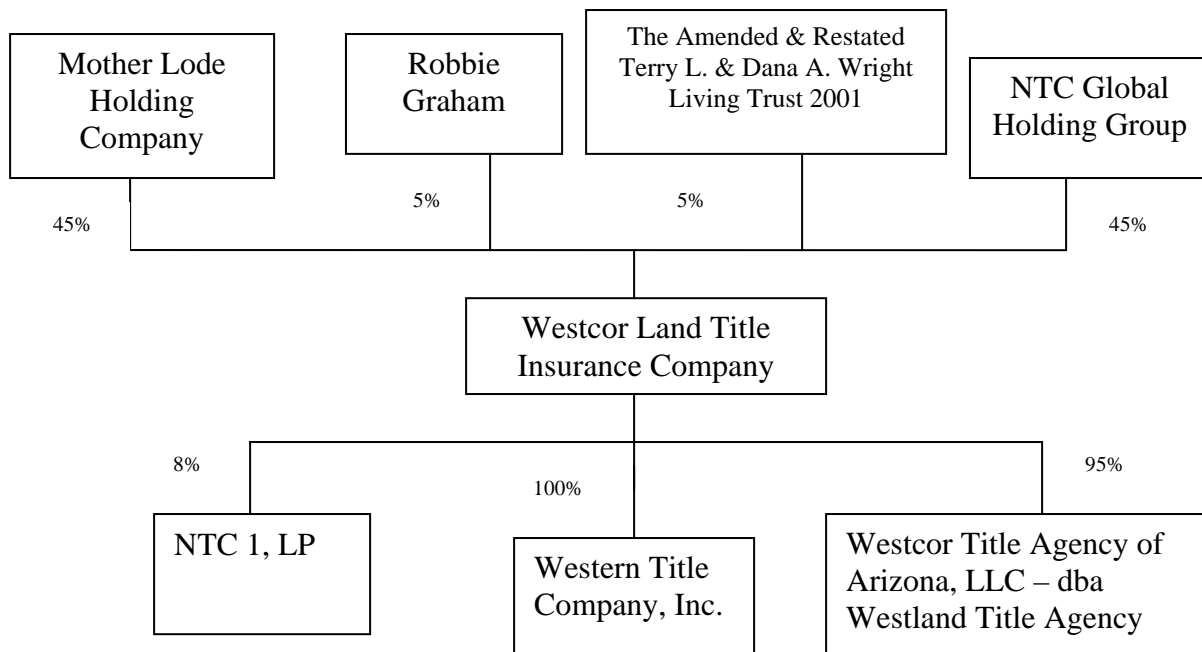
## COMPANY HISTORY

The Company began writing title insurance in the State of Nevada in 1993. The Company changed its state of domicile from Nevada to California effective December 14, 1999. During 2000, the Company amended its Articles of Incorporation to increase the par value of its stock from \$46 per share to \$65 per share.

## MANAGEMENT AND CONTROL

The Company is owned 45% by NTC Global Holdings, 45% by Mother Lode Holding Company, and 5% each by two executives – Robbie Graham and the Amended and Restated, Terry L. and Dana A. Wright Living Trust 2001. NTC Global Holdings is owned 100% by Terry L. Wright, the ultimate controlling person of the Company.

The following is an abbreviated version of the organizational chart showing only the owners and subsidiaries of the Company as of December 31, 2003.



Mother Lode Holding Company owns 100% of three of the underwritten title companies that produce business for the Company: Central Valley Title Company, National Closing Solutions, (offices in Florida, Pennsylvania, and Texas), and Placer Title Company. NTC Global Holdings owns 100% of Nevada Title Company, which also produces business for the Company. These underwritten title companies produce the majority of the business for the Company.

Members of the board of directors and principal officers serving at December 31, 2003 were as follows:

#### Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Jerry Adams Cameron Park, California	Board Chairman Placer Title Company
David Barksdale* Las Vegas, Nevada	General Counsel Nevada Title Company
Marsha A. Emmett Auburn, California	President Mother Lode Holding Company
Robbie D. Graham Las Vegas, Nevada	President Nevada Title Company
Patricia A. Laffin Auburn, California	General Counsel Placer Title Company
David Philipp Auburn, California	Chief Financial Officer Mother Lode Holding Company
Terrence L. Wright Las Vegas, Nevada	Owner, Chairman of the Board Nevada Title Company

\* resigned September 2004, not replaced

#### Principal Officers

<u>Name</u>	<u>Title</u>
Patricia Laffin*	President and General Counsel
David Barksdale**	Secretary and Vice President

Name (cont.)Title (cont.)

David Philipp\*\*\*

Treasurer and Chief Financial Officer

Robbie Graham

Senior Vice President

Marsha Emmett

Senior Vice President

\* resigned as President in 2004 and replaced by Mary O'Donnell

\*\* resigned as Secretary and Vice President in 2004 and replaced by R. Peter Stevens

\*\*\* resigned as Chief Financial Officer in June 2004 and replaced by Lisbet Vandenberg

Conflict of Interest

The Company does not require annual conflict of interest statements as it indicated when it applied for re-domestication to California in 1999. In 2002, the Company changed its policy to have conflict of interest statements filled out only when first elected to the board or first hired. It is recommended the Company require annual conflict of interest statements from its directors, officers and key employees.

Intercompany Services Arrangements

The Company is not in compliance with California Insurance Code (CIC) Section 1215.5(b)(4). In 2003, the Company entered into a management arrangement with Mother Lode Holding Company (Mother Lode), who provides services such as Treasurer, Legal, Underwriting, General Counsel, and Data Processing Services. This transaction required prior approval from the California Department of Insurance (CDI). It was recommended the Company reduce this arrangement to writing and submit it to the CDI for approval. On March 22, 2005, the Company submitted an agreement to the CDI, which is still under review.

During the prior examination, the Company was not in compliance with CIC Section 1215.5 (b)(4) because it did not have a written agreement with its affiliate, Nevada Title Company (NTC), who provides various accounting and purchasing services. A written agreement was submitted subsequent to the examination.

The Company has a practice where it shares employees with NTC. This arrangement is not covered in the agreement that was submitted to the CDI after the prior exam. It is recommended the Company revise its agreement with NTC to include this arrangement and submit it to the CDI for approval. The Company stated that it will make appropriate revisions and submit the revised agreement to the CDI.

#### Affiliated Investments

The Company is not in compliance with CIC Section 1215.5 (b)(1) because it did not submit its intention to purchase Western Title Company in 2003 for approximately \$2.8 million to the CDI. The Company filed these documents with the CDI on July 30, 2004.

The Company is not in compliance with CIC Section 1215.5 (b)(1) because it increased its investment in its 95% owned subsidiary, Westland Title Agency of Arizona to \$723,430 and did not file for prior approval with the CDI. This transaction was filed with the CDI in October of 2004.

The Company is not in compliance with CIC Section 1215.5 (b)(1) and (b)(7) because it did not submit its investment in an affiliated limited partnership, NTC 1 LP, to the CDI for prior approval. This transaction was submitted to the CDI on July 30, 2004

#### CORPORATE RECORDS

The Company is not in compliance with California Insurance Code (CIC) Sections 1200 and 1201 that require the individual approval of investments in the board meeting minutes. This is a repeat finding from the prior examination. There was also no board approval noted for its investments made in Westland Title Agency of Arizona, NTC 1, LP, and for the purchase of Western Title Company. The board retroactively approved these three transactions in its August 6, 2004 meeting minutes. It is recommended that the Company comply with CIC Sections 1200 and 1201.

The Company is not in compliance with its own bylaws because it did not elect directors and officers annually. There were 8 officers and 5 directors who were last elected in November of 2001 and not re-elected at any time during the examination period. The directors and officers were re-elected subsequent to the examination date.

#### TERRITORY AND PLAN OF OPERATION

At December 31, 2003, the Company was licensed to write title insurance in the states of Arizona, California, Florida, Hawaii, Illinois, Indiana, Nevada, New York, Ohio, Pennsylvania, Texas, Utah, West Virginia, and the District of Columbia. Business was written primarily in California and Nevada.

Subsequent to the examination date, the Company withdrew from the states of Illinois, Indiana, Utah, West Virginia, and the District of Columbia due to a lack of resources to obtain market share. The Company also plans to withdraw from New York, Ohio, and Pennsylvania pending board resolution.

Direct premiums written were \$36,660,150 in 2001, \$50,905,980 in 2002 and \$50,244,376 in 2003. In 2003, the Company wrote 66% of its business in California, 27% in Nevada, and 6% in Arizona.

Business is written through 6 affiliated and 1 unaffiliated underwritten title companies. Nevada Title Company is affiliated through NTC Global Holdings and writes title policies in Las Vegas, Nevada. Placer Title Company, and Central Valley Title are affiliated through Mother Lode Holding Company (Mother Lode) and write title policies in California and Central California, respectively. National Closing Solutions is also an affiliate through Mother Lode and writes business in the states of Florida, Pennsylvania and Texas. Western Title Agency is a 100% owned subsidiary of the Company and writes title policies in Reno, Nevada. Westland Title Agency of Arizona is a 95% owned subsidiary and writes title policies in Arizona.



In November of 2004, the Company began escrow operations in the State of Florida under the dba of East West Title Company (EWTC). EWTC's main office is in Maitland, Florida and there are two branch offices in Jupiter and Sarasota. A title research office was opened in Pensacola in December 2004, with an additional title research office opened in Panama City in early 2005. Although the expansion into Florida was discussed in board meetings, there was no board of director approval noted in the 2004 meeting minutes for these operations.

## REINSURANCE

### Assumed

The Company does not assume any reinsurance.

### Ceded

As of December 31, 2003, the Company had the following reinsurance contracts in force:

<u>Type of Contract</u>	<u>Reinsurer's Name</u>	<u>Company's Retention</u>	<u>Reinsurer's Limit</u>
Excess of Loss	Chicago Title Insurance Company	\$100,000	\$5 million
Excess of Loss Treaty	Commonwealth Land Title Insurance Company	\$100,000	\$1 million
Excess of Loss Treaty	Old Republic National Title Insurance Company	\$100,000	\$5 million

The Company entered into a reinsurance agreement with Commonwealth Land Title Insurance Company (Commonwealth) in 1995. Under the terms of this agreement, the Company pays 2% of premiums on policies reinsured. In 1998, the Company entered into a reinsurance treaty with Old Republic National Title Insurance Company (Old Republic) that specified payment of 1.5% of premiums on policies reinsured. In 2001, the Company entered into an a reinsurance agreement with Chicago Title Insurance Company under which the Company pays 1.5% of premiums on policies reinsured. Most of the policies are currently reinsured under the Old Republic treaty with some policies reinsured under the Commonwealth treaty in accordance with mortgage lenders and builders' preferences.

On January 29, 2004, the Company and Old Republic agreed to terminate the reinsurance treaty effective February 1, 2004. A new reinsurance treaty with First American Title Insurance Company was entered into in January 2004 with a retroactive effective date of December 31, 2003. Under the terms of the agreement, the Company pays 1.5% of premiums on the policies it cedes up to a maximum of \$5 million in excess of \$100,000.

### ACCOUNTS AND RECORDS

The Company could not readily supply detail for certain transactions, and in some cases, when detail was provided, it was not sufficient. It is recommended that the Company develop the means to provide supporting detail to trace from the general ledger to the Annual Statement balances. This was also a recommendation in the prior examination.

The Company did not properly substantiate that several of its expenditures were ordinary and necessary business expenses. In addition, the Company does not comply with its own guidelines for travel and entertainment expense reimbursement. During the examination, it was noted where one of the Company's owners charged a \$600 per night suite to the Company when the Company's guidelines specify a maximum lodging rate of \$150. Expense claims did not have management approvals or were sometimes approved by the same individual who requested the payment.

Other expenses that were not properly substantiated include a party catered by Spago for approximately \$2,000 and \$1,000 for 24 bottles of wine for 20 people without any indication of who was in attendance. When asked for further information, the Company responded it was the board and several spouses. There were other instances of expenses that were not properly substantiated such as meals for \$679 for 4 people and \$972 for 9 people without any indication of who was in attendance or 10 Mont Blanc pens purchased for \$99.99 each without any indication of who they were given to. It is recommended that the Company properly substantiate its expenses and comply with its own expense reimbursement guidelines.

The Company is not in compliance with the California Code of Regulations (CCR), Title 10, Section 2695.3 because its claim files do not contain all documents, notes and work papers that reasonably pertain to each claim in such detail that pertinent events and the dates of events can be reconstructed and the licensee's actions pertaining to the claim can be determined. It was necessary to work from the general ledger, accounts payable invoices, claim files, and the claims data base in order to determine what happened in each claim file. The Company stated that although it believes its claim files comply with the CCR it will be maintaining copies of invoices in the files in the future.

In addition, the Accounting Department frequently miscoded loss adjustment expenses paid to losses paid because it was not aware there were other types of loss adjustment expenses besides legal fees and that these expenses need to be accounted for separately from loss payments. The Company did not fill out its Schedule P correctly because it inappropriately recorded loss adjustment expenses other than attorney fees as losses. It is recommended that the Company comply with CCR, Title 10, Section 2695.3, that the claims and accounting departments work together to ensure proper reporting of claim data and that the Company prepare Schedule P in accordance with the Annual Statement Instructions.

#### Information System Controls:

A review was made of the Company's general controls over its information systems. As a result of the review, weaknesses were noted in areas such as management controls, system and program development controls, operations and processing controls, logical access controls, and contingency planning. The weaknesses noted were presented to the Company along with recommendations to strengthen its controls. It is recommended the Company evaluate the recommendations and take appropriate steps to strengthen its information system controls. This is a repeat finding from the prior examination.

## FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2003

Operations and Investment Exhibit for the Year Ended December 31, 2003

Reconciliation of Surplus as Regards Policyholders from January 1, 2001  
through December 31, 2003

Reconciliation of Examination Changes as of December 31, 2003

Statement of Financial Condition  
as of December 31, 2003

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$ 1,964,515	\$	\$ 1,964,515	(1)
Common stocks	3,508,485		3,508,485	(1)
Cash on deposit	5,645,216		5,645,216	(1)
Other invested assets	3,967,197		3,967,197	
Investment income due and accrued	19,234		19,234	
Uncollected premiums and agents' balances in the course of collection	1,015,636		1,015,636	
Current federal and foreign income tax recoverable and the interest thereon	959,125	670,469	288,656	
Electronic data processing equipment	8,854		8,854	
Receivable from parent, subsidiaries and affiliates	2,285		2,285	
Other assets non admitted	<u>28,848</u>	<u>28,848</u>	<u>          </u>	
Total assets	<u>\$17,119,395</u>	<u>\$699,317</u>	<u>\$16,420,078</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Known claims reserves			\$ 985,294	(2)
Statutory premium reserve			7,691,285	(3)
Other expenses (excluding taxes, licenses and fees)			253,227	
Taxes, licenses and fees			5,047	
Amounts withheld or retained by company for account of others			8,358	
Payable to parent, subsidiaries and affiliates			981,507	
Aggregate write-ins for other liabilities			<u>645,087</u>	(4)
Total liabilities			10,569,805	
Common capital stock		\$1,083,290		
Gross paid-in and contributed surplus		2,486,364		
Unassigned funds (surplus)		<u>3,573,207</u>		
Surplus as regards policyholders			<u>5,850,273</u>	
Total liabilities, surplus and other funds			<u>\$16,420,078</u>	

Operations and Investment Exhibit  
for the Year Ended December 31, 2003

Statement of Income

Operating Income

Title insurance premiums earned		\$48,128,787
Deductions:		
Loss and loss adjustment expenses incurred	\$ 763,550	
Operating expenses incurred	<u>46,415,396</u>	
Total operating deductions		<u>47,178,946</u>
Net operating gain		949,841

Investment Income

Net investment income earned	\$ 228,266	
Net realized capital gains	<u>7,718</u>	
Net investment gain		235,984
Net income before federal income taxes		1,185,825
Federal income taxes incurred		<u>589,456</u>
Net income		<u>\$ 596,369</u>

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2002		\$ 6,171,143
Net income	\$ 596,369	
Net unrealized gain	665,238	
Change in net deferred income tax	178,409	
Change in nonadmitted assets	(425,071)	
Aggregate write-ins for losses in surplus	<u>(1,335,815)</u>	
Change in surplus as regards policyholders for the year		<u>(320,870)</u>
Surplus as regards policyholders, December 31, 2003		<u>\$ 5,850,273</u>

Reconciliation of Surplus as Regards Policyholders  
from December 31, 2000 through December 31, 2003

Surplus as regards policyholders, December 31, 2000, per Examination			\$5,261,082
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net income	\$1,039,348	\$	
Net unrealized gain	665,238		
Change in net deferred income tax	178,409		
Change in nonadmitted assets		549,445	
Cumulative effect of change in accounting principal		94,181	
Aggregate write-in for loss in surplus	<u>                    </u>	<u>650,178</u>	
Total gains and losses in surplus	<u>\$1,882,995</u>	<u>\$1,293,804</u>	
Increase in surplus as regards policyholders			<u>589,191</u>
Surplus as regards policyholders, December 31, 2003, per Examination			<u>\$5,850,273</u>

Reconciliation of Examination Changes  
as of December 31, 2003

<u>Liabilities</u>	Per <u>Company</u>	Per <u>Examination</u>	Surplus Per <u>(Decrease)</u>	<u>Note</u>
Statutory premium reserve	\$6,923,697	\$7,691,285	\$(767,588)	(3)
Contingent liability	0	525,000	<u>(525,000)</u>	(4)
Net decrease to unassigned funds			(1,291,588)	
Surplus as regards policyholders, December 31, 2003 per Company			<u>7,142,861</u>	
Surplus as regards policyholders, December 31, 2003 per Examination			<u><u>\$5,850,273</u></u>	



## COMMENTS ON FINANCIAL STATEMENT ITEMS

### (1) Bonds, Stocks and Cash on Deposit

As of December 31, 2003, the Company's statutory premium reserve was on deposit in Morgan Stanley, which is not a qualified custodian. It is recommended that the Company comply with CIC Section 1104.9. This is a repeat finding from the prior examination. The Company withdrew most of the money from the Morgan Stanley account on March 7, 2005 and stated that it closed the account on May 17, 2005.

### (2) Known Claim Reserves

The Company obtained an actuarial report from its Milliman & Robertson, Inc. (M&R), its independent actuarial consulting firm. M&R estimated the Company's loss and loss adjustment expense reserves to be \$4.1 million as of December 31, 2003 based on external title insurance industry development patterns because of the low volume and variability of the Company's loss experience. The \$4.1 million is comprised as follows:

Loss and allocated loss adjustment expense on known claims	\$ 400,000
Bulk reserves	600,000
Anticipated adjustments to case reserves and incurred but not reported claims	2,700,000
Future unallocated loss adjustment expenses	400,000
Total	\$4,100,000

Because the Company's statutory premium reserve as of the examination date was \$6.9 million (prior to exam adjustments) M&R concluded that no statutory supplemental reserve was required.

The examiner reviewed the M&R report and subsequent development through September 30, 2004. Subsequent development totaled only \$352,734 and, therefore, the reserves were determined to be adequate.

The Company is not in compliance with California Insurance Code (CIC) Section 12388 because it did not establish reserves for some claims that were reported in 2003 and prior. It was also noted that sometimes a reserve was not increased until immediately before a payment was made. It is recommended the Company establish reserves for claims as soon as they are reported and comply with CIC Section 12388. This is a repeat finding from the last examination.

The deficiencies noted above will not have a material financial impact on the Company, as the Statutory Premium Reserve is significantly greater than the reserve amounts estimated by M&R.

(3) Statutory Premium Reserve

The Company is not calculating the statutory premium reserve on its Nevada policies correctly. In accordance with the Nevada Revised Statutes 692A.170 which requires an amount for foreign title insurers that is higher than California's statutory premium reserve formula. The Company voluntarily corrected this amount in its June 30, 2004 Quarterly Statement, resulting in a \$767,587 decrease to surplus and a decrease to second quarter net income of \$33,000. The Company was advised of this issue during the prior examination, but no adjustment was made as the amount at the time was immaterial.

(4) Aggregate Write-in for Other Liabilities

The Company did not establish reserves for a pending lawsuit in which it is a named defendant (together with Nevada Title Company (NTC)) which could result in an unfavorable outcome in excess of \$5 million. Based on a review by the Claims Specialist, a contingent liability reserve in the amount of \$525,000 has been established. The Company has stated that NTC is paying all legal expenses.

## SUMMARY OF COMMENTS AND RECOMMENDATIONS

### Current Report of Examination

Management and Control – Intercompany Service Arrangements - (Page 4): It is recommended that the Company revise its agreement with Nevada Title Company (NTC) to include the arrangement whereby Westcor shares employees with NTC and submit the agreement to the CDI for approval.

Corporate Records – (Page 5): It is recommended that the Company comply with CIC Sections 1200 and 1201 and that it comply with its bylaws.

Accounts and Records-(Page 8): It is recommended that the Company develop the means to provide future examiners with supporting detail to trace from the general ledger to the Annual Statement balances. It is also recommended the Company properly substantiate its expenses and comply with its own expense reimbursement guidelines.

It is recommended that the Company comply with CCR, Title 10, Section 2695.3, that the claims and accounting departments work together to ensure proper reporting of claim data and that the Company prepare Schedule P in accordance with the Annual Statement Instructions.

Accounts and Records - Information System Controls-(Page 9):-It is recommended the Company take steps to strengthen its information system controls.

Comments on Financial Statement Items - Bonds, Common Stocks and Cash on Deposit-(Page 15): It is recommended the Company comply with CIC Section 1104.9.

Comments on Financial Statement Items - Known Claims Reserves-(Page 15):-It is recommended the Company comply with CIC Section 12388.

Comments on Financial Statement Items - Statutory Premium Reserve-(Page16): It is recommended the Company calculate its Statutory Premium Reserve correctly.

#### Previous Report of Examination

Corporate Records – (Page 4): It was recommended that the Company comply with CIC Sections 1200 and 1201. The Company is still not in compliance and this is a repeat finding in the current examination.

Accounts and Records – (Page 8): It was recommended that the Company restructure its method of accounting to provide a better audit trail. It was also recommended the Company prepare Schedule P in accordance with the Annual Statement Instructions. The Company is still not preparing Schedule P correctly.

Comments on Financial Statement Items - Bonds and Cash on Deposit – (Page 10): It was recommended the Company comply with CIC Section 1104.9. The Company is still not in compliance and this is a repeat finding in the current examination report.

Comments on Financial Statement Items - Known Claim Reserves – (Page 10): It was recommended the Company establish reserves for claims as soon as they are reported and continue to improve communications between its claims and accounting departments. This is a repeat finding in the current examination.

### ACKNOWLEDGEMENT

The undersigned would like to thank the Company's officers and employees for their cooperation and assistance during the course of this examination.

Respectfully Submitted,

/S/

---

Susan Bernard, CFE  
Examiner-In-Charge  
Senior Insurance Examiner  
Department of Insurance  
State of California